IAC LIMITED

46TH ANNUAL REPORT

1970

1970 Annual Meeting

The annual meeting of shareholders will be held at 11.30 a.m., Friday, April 23, 1971, at Le Chateau Champlain, Montreal, Quebec.

IAC LIMITED*

Incorporated under the laws of Canada, February 7, 1925

Head office
45 St. Clair Ave. W., Toronto 195, Ontario

Executive offices
1320 Graham Blvd., Montreal 304, Quebec

1970 ANNUAL REPORT

Si vous désirez recevoir un exemplaire en français du Rapport annuel de l'IAC, veuillez vous adresser au Secrétaire, IAC Limitée, 1320, boul. Graham, Montréal 304, Québec.

*Effective November 2, 1970, a change of name from 'Industrial Acceptance Corporation Limited' to 'IAC Limited' was authorized by supplementary letters patent.

OFFICERS

Chairman of the Board

J. B. PENNEFATHER

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L. E. NICHOL

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J. S. LAND, *Finance*

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W. P. DAVIDSON
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A. S. MACKAY
B. S. MOWATT
C. R. STEWART
J. L. WARREN

Treasurer

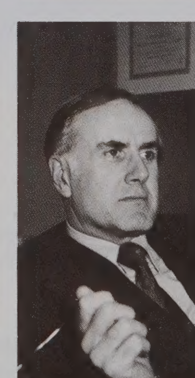
G. K. DuPUY











DIRECTORS

FRANK M. COVERT, Q.C.
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Partner—Stewart, MacKeen & Covert

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Comstock Company Ltd.

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Partner—St. Laurent, Monast,
Desmeules & Walters

GRANT E. WEMP
Montreal, Que.
Honorary Chairman of the Board

DENNIS K. YORATH
Edmonton, Alta.
Chairman of the Executive Committee and
Vice-President, International Utilities Corp.

*Member of the Executive Committee of the Board as at December 31, 1970

HIGHLIGHTS FOR THE YEAR

	1970	1969	Per Cent Increase (Decrease)
Gross Income	$ 143,244,000	$ 136,327,000	5.1
Proportion taken up by			
Cost of borrowed money	42.4%	41.1%	
General and administrative expenses	28.6%	29.5%	
Earnings applicable to common shares	$ 15,783,000	$ 14,366,000	9.9
Dividends paid on common shares	$ 8,769,000	$ 8,401,000	4.4
Proportion of earnings	55.6%	58.5%	
Earnings per share	$1.30	$1.19	9.2
Dividends paid per share	$ .72½	$ .70	3.6
Income and other taxes per share	$1.53	$1.45	
Per cent income tax of pre-tax earnings	51.5%	51.9%	
Per cent return on average common equity	12.47%	12.05%	

AT THE YEAR END

Total consolidated assets	$1,176,661,000	$1,152,286,000	2.1
Number of people employed	3,279	3,530	(7.1)
Number of common shareholders	13,502	13,904	(2.9)
— domiciled in Canada	95.7%	95.7%	
Number of common shares outstanding	12,131,720	12,060,587	0.6
—owned in Canada	94.7%	94.1%	

46TH ANNUAL REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

Earnings applicable to common shares for the year 1970 increased by 9.9% from those of 1969 to \$15.7 million, or \$1.30 per common share, 11 cents higher than in the previous year. This growth in earnings compares with a growth in assets of just over 2% in 1970 against 7% in 1969.

The lower rate of growth in assets reflected reduced consumer spending on the larger durables such as motor vehicles. Consumer buying was adversely affected by such unsettling factors as rising unemployment, strikes and high money costs. However, your company was able to offset the resulting decline in related sales finance receivables through growth in the areas of leasing, residential mortgages and in some categories of consumer lending.

This change in mix of new business booked and the phasing out of older, lower yielding paper, produced a higher average yield on the aggregate of receivables and was accompanied by an improvement in the ratio of general and administrative expenses to gross income. Another important contributor to higher earnings was a more favourable underwriting experience by Merit Insurance Company.

Cost of borrowed money, the largest category of expenditure, declined slowly throughout the year, but the average cost was still higher than in 1969 at 7.4% as compared to 7.1%. The effect of this higher cost was modified through the improved income and expense ratios already mentioned.

During the year, \$25 million in long term debt instruments were sold. These consisted of \$15 million IAC Series 1970 debentures and \$10 million Niagara Mortgage & Loan Company Limited Series A secured notes. The latter issue was the first public borrowing by that company, thus establishing a precedent useful for financing its future growth.

The planned decentralization of senior personnel in the operating divisions of the parent company, referred to in last year's report, was completed during the year. In addition, an executive vice-president and two senior vice-presidents were transferred to the Head Office in Toronto to strengthen your company's influence in that important

financial centre.

The progress recorded in this report stems from the high quality of the company's human resources. Your Directors wish to record warm thanks and appreciation for the loyalty, enthusiasm, judgment and diligence the people throughout the organization exercised in contributing to yet another successful year.

Your Directors are of the opinion that the general level of economic activity will improve and gain momentum slowly in 1971. It would be reasonable, therefore, to expect further growth in your company's volume of business, in average funds employed during the year and in earnings.

On behalf of the Board,

Chairman

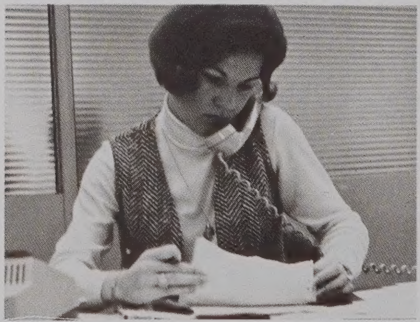
President

GENERAL COMMENTARY

by Keith H. MacDonald
Executive Vice-President

Since the progress of your company so largely stems from the quality of its human resources and their effective deployment, it seemed appropriate to include in this report photographs of a representative number of its people at work. It has been their spirit of enterprise which has enabled IAC to offer an ever-growing range of services not only for Canadian consumers but also for Canadian business.

Thus, IAC has become vastly more diversified than it was ten years ago. The areas in which it seeks and obtains new business have broadened greatly. From investment heavily-weighted in consumer receivables, the company's operations have moved towards a more desirable balance between consumer and business credit granting.



Carefully tailored IAC plans which recognize the differing needs of a wide range of business customers are offered on a national basis from offices of specialized divisions that concentrate exclusively on services

to the business community. Such plans include: purchase credit, purchase and lease, lease financing and portfolio purchasing.

The main thrust of expansion is towards leasing plans and other financing facilities for larger items of revenue-producing equipment required to up-date or increase the productive capacity of business. Investment in this type of receivable increased by over $40 million in

1970 and the variety of suitable opportunities continues to grow each year.

Through IAC's Capital Funds Division, which specializes in capital assets leasing, arrangements are made with corporations for the purchase and lease of major units of capital equipment. Frequently this is done on a master lease basis, tailored to the nature of the project, which permits the acquisition of additional items as required. This facility is designed to serve highly credit-worthy businesses for whom leasing becomes another source of

external financing for growth.
IAC also provides purchase credit and lease facilities for a wide range of less specialized industrial and commercial equipment through manufacturers, distributors and dealers. An Industrial Division with 15 branches in major centres concentrates exclusively on offering these services to business. This Division is backed up by the 170 general branches which provide service at the local level in 150 other communities. Through thousands of diverse transactions for business and industry, IAC thus makes funds available for expansion and modernization of enterprises, particularly medium and small businesses.
However, the largest single element of your company's services is the provision of credit to individual Canadians. Approximately one-half million of them were using such services at last year end. The greatest part of this consumer business is the purchasing of contracts arising out of the instalment sale of motor vehicles through dealers.
IAC services to motor vehicle dealers go well beyond the mere provision of credit. Courses are conducted for salesmen to assist them in the sound handling of instalment sales and meetings are held with dealers to help them keep up-to-date with changing credit conditions and regulations. Their proposed retail transactions are appraised on a day-to-day basis and monthly computer reports on the condition of the resulting outstanding accounts are provided. By these and other means, knowledgeable and experienced IAC people render assistance to manufacturers, distributors and dealers in the movement of goods from factory to point-of-sale and in supplying sound credit programs. Sources of automotive business include retail outlets of all domestic and foreign manufacturers selling in Canada.

During 1970, the "down year" market conditions prevailing in the motor vehicle industry caused a drop in related receivables, especially retail. Such receivables included the financing of buses, trucks, tractors and trailers to the extent of over $100 million at the end of 1970. While these commercial vehicle receivables at that date were 5.3% below the level at the 1969 year end, a longer term growth pattern showed a 51% increase in the five years prior to 1970 and a 100% increase over ten years. Because this type of financing is not being as aggressively solicited by credit grantors outside the sales finance industry and the number, types and costs of such vehicles are growing, IAC's market can be expected to continue to improve appreciably.

There was a substantial decrease in IAC's home product receivables during the year, reflecting a planned curtailment of activities in lower-priced items, the sales financing of which had become relatively unprofitable. Receivables representing both residential mortgage loans and mobile home instalment purchases increased by more than $10 million each. Mortgage facilities, which were available at relatively few branches while experience was being gained, are now offered at many more locations and demand continues strong. Mobile home financing represents a growing source of business because it provides an economical answer to the housing needs of many Canadians in both urban and more remote areas.

Although there has been growth in the financing of recreational products, the amounts involved have not yet become significant to your company. Prospects for the financing of travel trailers, however, are encouraging.

In the consumer loan field, the growth of Niagara Finance Company Limited continues. Both its assets and its contribution to consolidated earnings increased during the year. In addition to Niagara's consumer loan activities, its personnel manage the operations of the two residential mortgage companies whose earnings were up 43% in 1970. During the year the operation of Coastal Acceptance Corporation

in the New England States was discontinued and the assets sold. This action was taken because the earnings potential was not developing sufficiently to warrant the administrative time and effort by Niagara supervisory personnel.

The over-all performance of receivables was satisfactory. Delinquency and write-off ratios compared closely with historical patterns. A sound relationship between debt maturities and those of your company's receivables was maintained. There is

substantial margin to increase debt leverage over equity to accommodate further growth.

INSURANCE

In the fall of 1970, to benefit from economies of scale, certain sales and administrative functions of your casualty insurance company, Merit, were transferred to Toronto to be integrated more closely with the corresponding functions of your life insurance subsidiary, Sovereign. Both companies will benefit progressively as these changes mature. In addition, Merit's marketing policy has been changed quite importantly. Almost exclusive emphasis has been placed upon the development of householder protection and other casualty business direct from the public. This change and the more appropriate premium rates in some categories of risks were the main factors

in turning a loss of $273,000 in 1969 into earnings of $246,000 in 1970.

PROSPECTS

Since the Canadian economy is expected to be in a recovery phase during 1971, the confidence to purchase and to undertake forward obligations should be progressively restored. A gradual uptrend in the purchase of consumer durables can be expected to provide correspondingly greater opportunities for the services of the IAC companies.

Business investments may be delayed longer because of many uncertainties, such as inflation, tax reform and the present relatively low utilization rate of manufacturing and processing facilities. However, as the need for new labour-

saving machinery and equipment mounts and the effective procurement of capital continues to challenge industry, your company's specialized services for the business community should continue in demand.

Opportunities for the application of traditional and newer services of the IAC companies will continue to develop and, through the ingenuity of their people, progress will be stimulated and a growth pattern maintained consistent with that of the Canadian economy.

A Supplement to the Annual Report for those desiring more detailed information is available on request to the Secretary.

McDONALD, CURRIE & CO.
CHARTERED ACCOUNTANTS

TELEPHONE (514) 875-5140

INTERNATIONAL FIRM
COOPERS & LYBRAND

630 DORCHESTER BOULEVARD WEST
MONTREAL 101, QUEBEC, CANADA

February 9, 1971

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of IAC Limited and subsidiaries as at December 31, 1970 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1970

IAC LIMITED AND SUBSIDIARIES
(*note 1*)

	1970		1969	
	$000's		$000's	
Gross income (*note 2*)		143,244		136,327
Expenditure (*note 3*)				
Cost of borrowed money —				
Secured notes	53,476		49,278	
Debentures	7,217		6,752	
	60,693		56,030	
Casualty insurance claims incurred	7,343		8,403	
General and administrative	40,938	108,974	40,161	104,594
		34,270		31,733
Provision for income taxes (*note 5*)				
Current	5,391		5,924	
Deferred	12,265	17,656	10,561	16,485
		16,614		15,248
Parent company's portion of increase in unassigned surplus of life assurance subsidiary		248		236
Earnings		16,862		15,484

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1970

IAC LIMITED AND SUBSIDIARIES
(*note 1*)

	1970	1969
	$000's	$000's
Earnings for the year	16,862	15,484
Dividends on preferred shares	1,079	1,118
Earnings applicable to common shares	15,783	14,366
Dividends on common shares at $0.72½ per share (1969—$0.70)	8,769	8,401
Earnings retained in the business	7,014	5,965
Gain on preferred shares purchased for cancellation	241	56
	7,255	6,021
Elimination of excess of purchase price over book value at dates of acquiring shares of certain subsidiaries		1,393
Increase in retained earnings for the year	7,255	4,628
Retained earnings at beginning of year	90,378	85,750
Retained earnings at end of year (*note 6*)	97,633	90,378

	1970	1969
	$	$
COMMON STOCK EARNINGS PER SHARE	1.30	1.19

The daily average of common shares outstanding during the year was 12,085,813 (1969 — 11,992,218) and there were 12,131,720 shares outstanding at the end of the year (1969 — 12,060,587). Earnings per common share were $1.30 (1969 — $1.19), whether calculated on the number of shares outstanding at the end of the year or on the daily average (also see note 7).

CONSOLIDATED BALANCE SHEET

as at December 31, 1970

	1970	1969
	$000's	$000's
ASSETS		
Current assets		
Cash	26,516	26,265
Receivables —		
Sales financing — wholesale	137,116	138,770
— retail	533,823	566,407
Dealer loans	16,559	16,794
Consumer loans	155,565	152,675
Residential mortgages	62,631	52,044
Commercial loans	56,107	66,829
Leasing	117,062	77,625
Other	808	879
Property, vehicles and equipment held for sale	3,283	3,529
(*note 8*)	1,082,954	1,075,552
Allowance for doubtful receivables	14,504	14,418
	1,068,450	1,061,134
Marketable securities — at cost or amortized values plus accrued interest (quoted value 1970 — $22,445,000; 1969 — $37,022,000) (*note 9*)	24,206	39,502
Commercial paper receivable	37,522	8,920
	61,728	48,422
	1,156,694	1,135,821
Other assets and deferred charges		
Cash committed for debenture and preferred stock retirement	520	692
Investment in life assurance subsidiary (*note 1*)	4,649	4,401
Investment in other companies	657	591
Leasehold improvements and prepaid expenses	1,684	1,083
Unamortized debt discount and expense	8,429	5,717
Premises and equipment — at cost less accumulated depreciation of $5,133,000 (1969 — $5,200,000)	4,028	3,981
	19,967	16,465
	1,176,661	1,152,286

Signed on behalf of the Board

J. B. PENNEFATHER }
L. E. NICHOL } Directors

	1970	1969
	$000's	$000's
LIABILITIES		
Current liabilities		
Secured demand bank loans	25,000	31,400
Secured short-term notes	236,278	272,350
Accounts payable and accrued liabilities	36,382	34,907
Income taxes	233	(540)
Dealer credit balances	16,280	16,143
(*note 8*)	314,173	354,260
Secured medium-term notes (*schedule A*)	148,371	123,538
Secured long-term notes (*schedule B*)	313,469	306,092
Debentures (*schedule C and note 10*)	96,792	87,533
Subordinated debentures (*schedule D and notes 10 and 12*)	21,596	22,371
(*note 8*)	580,228	539,534
Unearned income		
Service charges	91,167	86,563
Casualty insurance premiums	4,512	4,810
	95,679	91,373
Deferred income taxes (*note 11*)	35,953	23,688
	1,026,033	1,008,855
SHAREHOLDERS' EQUITY		
Capital stock (*schedule E*)		
Preferred stock	19,842	20,731
Common stock (*note 12*)	33,153	32,322
	52,995	53,053
Retained earnings (*note 6*)	97,633	90,378
	150,628	143,431
	1,176,661	1,152,286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1970

Principles of consolidation

1. The statements consolidate the accounts of the company and its subsidiaries with the exception of those of The Sovereign Life Assurance Company of Canada. The nature of the business of this subsidiary does not permit a meaningful presentation in the consolidation. The investment in its shares is stated at cost plus the parent company's portion of increase in unassigned surplus of the subsidiary since acquisition.

Gross income

2.

	1970	**1969**	Increase (Decrease)	
	$000's	$000's	$000's	%
Source				
Sales financing and dealer loans	86,014	82,940	3,074	3.7
Consumer loans	29,203	27,886	1,317	4.7
Residential mortgages	7,319	5,915	1,404	23.7
Commercial loans and leasing	12,793	10,821	1,972	18.2
	135,329	127,562	7,767	6.1
Provision for doubtful receivables	6,290	5,483	807	14.7
	129,039	122,079	6,960	5.7
Casualty insurance premiums	10,301	10,638	(337)	(3.2)
Marketable securities and commercial paper	3,904	3,610	294	8.1
	143,244	136,327	6,917	5.1

Expenditure

3. Expenditure includes the following:

	1970	**1969**
	$	$
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	37,608,359	31,768,342
Depreciation of premises and equipment	822,931	805,706

Remuneration of directors and officers

	1970	**1969**
	$	$
4. Aggregate remuneration as directors of the 16 directors of the company (1969-16)	99,950	99,520
Aggregate remuneration as officers of the 20 officers of the company (1969-15), 3 of whom are also directors (1969-3)	908,805	785,883

Tax relief available for future years

5. As at December 31, 1970, a subsidiary had losses of approximately $420,000 available for application against taxable income of future years not later than 1974.

Retained earnings — statutory appropriation

6. An amount equal to the par value of preferred shares purchased for cancellation has been set aside in the accounts out of retained earnings (1970 — $5,158,275; 1969 — $4,268,325).

Fully diluted earnings per share

7. Assuming that on January 1, 1970 all shares reserved as shown in note 12 had been issued, fully diluted earnings for the year ended December 31, 1970 would have been $1.20 (1969 — $1.10) per share. The calculation assumes that earnings applicable to common shares were increased:

(a) by $310,000 representing the interest, net of income taxes, attributable to the elimination of the 7% convertible debentures; and

(b) by $419,000 representing interest at 8 1/6% net of income taxes, imputed to a notional reduction of borrowings by application of the funds which would have arisen had all options and purchase warrants been exercised.

This hypothetical figure of $1.20 (1969 — $1.10) results from arithmetic calculations applied to certain arbitrary assumptions stipulated by accounting bodies. These assumptions ignore (a) the impact of changes in leverage, in legislation and in future economic circumstances, (b) the investor's right to choose the most appropriate moment to take up the common shares reserved for him, and (c) the timing restrictions affecting the issue of certain shares under option plans.

Maturities of gross receivables and payables

8. (in millions of dollars)

Receivables	year 1	year 2	year 3	year 4	year 5	years 6-10	years over 10	Total
Sales financing —								
Wholesale	137.1							137.1
Retail	289.6	155.6	54.5	14.0	8.0	12.1		533.8
Dealer loans	3.8	2.6	2.8	2.4	2.5	2.2	.3	16.6
Consumer loans	78.4	56.4	19.1	1.7				155.6
Residential mortgages	3.1	4.0	4.2	4.4	4.6	19.7	22.6	62.6
Commercial loans and leasing	34.3	17.7	17.6	18.6	14.5	38.7	31.8	173.2
Other receivables and property, vehicles and equipment held for sale	4.1							4.1
	550.4	236.3	98.2	41.1	29.6	72.7	54.7	1,083.0
Payables								
Debt	333.6	62.9	32.4	43.6	4.0	66.4	298.6	841.5
Other	42.0	6.6	2.6	.7	.4	.6		52.9
	375.6	69.5	35.0	44.3	4.4	67.0	298.6	894.4
Excess of receivables (payables)	174.8	166.8	63.2	(3.2)	25.2	5.7	(243.9)	188.6

Marketable securities

9. Marketable securities include those of the casualty insurance subsidiary, at cost plus accrued income, amounting to $11,662,000 (1969 — $12,029,000) (quoted value — 1970 — $10,333,000; 1969 — $9,917,000).

Sinking fund requirements

10. Debenture and subordinated debenture sinking fund requirements for the year 1971 amount to $1,262,000.

Deferred income taxes

11. Deferred income taxes arise from timing differences relating to the treatment of income or expenses associated with the following balance sheet items:

	1970 $000's	1969 $000's
Residential mortgages	249	192
Leasing receivables	33,459	21,801
Unamortized debt discount and expense	1,611	1,117
Premises and equipment	166	160
Unearned casualty insurance premiums	468	418
	35,953	23,688

Common stock

12. (a) Common shares are reserved for issue as follows:

	Shares reserved 1970	Shares reserved 1969
(i) Personnel stock purchase plan — This is a continuing plan available after three years of service to all employees, certain of whom are directors, at $15.18 per share during 1971 (1970 — $13.39) allocated on a formula based on annual remuneration	174,555	185,332

(ii) 1967 stock option plan, expiring July 26, 1972 —
Available to employees as determined by the Board of Directors at a price not less than 90% of the last board lot sale on the Montreal Stock Exchange on the day preceding the date upon which the option is granted. As at December 31, 1970 options had been granted to employees, certain of whom are directors, as follows:

Price per share	Options granted	Options exercised	Shares reserved
$10.125	133,400	72,983	60,417
11.375	5,550	1,550	4,000
12.15	10,000	4,000	6,000
12.825	3,000	500	2,500
13.17	2,200		2,200
	154,150	79,033	75,117
Reserved for future options			5,850

	1970	1969
(ii) 1967 stock option plan (total)	80,967	113,843
(iii) Purchase warrants exercisable to August 14, 1974 at $12.50 per share attached to the 1966 6¾% subordinated sinking fund debentures	599,420	599,460
(iv) Conversion right exercisable until October 31, 1972 at 80 shares (equivalent to $12.50 per share) and thereafter until October 31, 1977 at 70 shares (equivalent to $14.285 per share) for each $1,000 of principal of the 1967 7% convertible subordinated debentures	738,480	765,920
	1,593,422	1,664,555

(b) During the year 43,693 shares were issued for cash and 27,440 shares were issued on conversion of 7% convertible subordinated debentures.

Contingent liabilities

13. The company and one of its subsidiaries are defendants in legal actions amounting to approximately $8,200,000. Counsel for the companies are of the opinion that none of the actions will result in a material liability.

Source and application of funds

14. Because of the nature of the activities of the company and its subsidiaries, it is not meaningful to prepare a consolidated statement of source and application of funds.

DETAILS OF SECURED MEDIUM-TERM NOTES *as at December 31, 1970*

SCHEDULE A

(issued for a term of over one and not more than ten years, at various rates of interest)

	Year of maturity	Par value U.S. $000's	1970 $000's	1969 $000's
Payable in Canadian funds – Parent company	1970			37,175
	1971		55,762	48,971
	1972		45,488	12,285
	1973		26,950	201
	1974		8,017	719
	1975		1,141	60
	1976		173	110
	1977		92	87
	1978		5	5
	1979		285	285
	1980		10	
			137,923	99,898
Niagara Finance Company Limited	1970			4,390
	1971		1,184	597
	1972		375	122
	1973		383	10
	1974		1,100	
	1975		90	
	1976		6	
	1977		21	
	1979		15	15
	1980		20	
			3,194	5,134
Payable in U.S. funds – Parent company	1970			13,930
	1971	2,000	2,158	2,158
	1972	1,000	1,018	1,072
	1973	4,000	4,078	
		7,000	7,254	17,160
Niagara Finance Company Limited	1970			1,346
		7,000	7,254	18,506
			148,371	123,538

Notes payable in U.S. funds have been converted to Canadian funds at exchange rates established under forward exchange contracts.

DETAILS OF LONG-TERM NOTES *as at December 31, 1970*

SCHEDULE B

(issued for a term of more than ten years)

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	1970 $000's	1969 $000's
Payable in Canadian funds – Parent company	1954	"O"	4¼	July 2, 1972		10,000	10,000
	1955	"P"	4½	December 15, 1970			6,000
	1956	"Q"	4½	March 15, 1971		12,500	12,500
	1959	"T"	5¾	April 1, 1979		6,000	6,000
	1959	"U"	6½	December 1, 1974		12,500	12,500
	1959	"V"	6½	December 1, 1979		5,000	5,000
	1960	"W"	6	August 15, 1980		7,500	7,500
	1961	"X"	5¾	November 15, 1981		8,500	8,500
	1962	"Y"	5.40	July 2, 1982		10,000	10,000
	1964	"28"	5¾	September 15, 1984		15,000	15,000
	1965	"31"	5¾	March 1, 1985		12,500	12,500
	1965	"33"	6	December 1, 1985		5,000	5,000
	1966	"34"	6½	February 1, 1986		6,000	6,000
	1969	"37"	8¼	May 1, 1974		15,350	16,000
						125,850	132,500

Series "37" notes are classified as long-term notes because they may be exchanged at the date of maturity at the holder's option for 8¼% notes maturing May 1, 1979, 8½% notes maturing May 1, 1984, or 8¾% notes maturing May 1, 1989. The 8¼% 1979 notes may in turn be exchanged at maturity for either 8½% 1984 notes or 8¾% 1989 notes.

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	1970 $000's	1969 $000's
Niagara Finance Company Limited	1964	"1"	5¾	April 15, 1984		10,000	10,000
	1964	"2"	5¾	May 1, 1985		10,000	10,000
	1965	"3"	5¾	May 1, 1985		10,000	10,000
	1966	"4"	7½	December 1, 1986		5,000	5,000
	1968	"5"	8¼	May 1, 1988		7,500	7,500
						42,500	42,500
Niagara Mortgage & Loan Company Limited	1970	"A"	9¼	December 15, 1990		10,000	

The interest rate on these notes increases to 9½% on December 15, 1973 and to 9¾% on December 15, 1975. Holders have the right to prepayment on December 15, 1973, 1975, 1980 or 1985. The parent company has guaranteed the notes as to principal, interest and redemption premiums, if any.

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	1970 $000's	1969 $000's
Payable in U.S. funds – Parent company	1957	"S"	5½	February 15, 1977	17,000	16,281	16,281
	1962	"Z"	5¼	October 1, 1982	10,000	10,792	10,792
	1963	"27"	5¼	April 1, 1988	10,000	10,781	10,781
	1964	"29"	5	October 1, 1984	10,000	10,762	10,762
	1965	"30"	5	February 15, 1985	15,000	16,125	16,125
	1965	"32"	5½	October 1, 1987	20,000	21,500	21,500
	1966	"35"	5¾	February 1, 1986	14,000	15,046	15,046
	1968	"36"	7¾	October 15, 1986	15,000	16,098	16,098
	1969	"38"	9½*	June 1, 1990	16,500	17,734	13,707
					127,500	135,119	131,092
						313,469	306,092

Notes payable in U.S. funds are stated in Canadian funds on the basis of proceeds received.
*Additional proceeds of $1,000,000 U.S. are to be received on or before March 31, 1971.
Holders of Series "38" notes have the right to prepayment on June 1, 1975, 1980 or 1985.

DETAILS OF DEBENTURES *as at December 31, 1970*

SCHEDULE C

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	Outstanding 1970 $000's	Outstanding 1969 $000's
Payable in Canadian funds – Parent company	1951	4*	March 1, 1970	2,500		698
	1952	5*	July 2, 1970	5,000		1,641
	1953	5*	January 2, 1971	5,000	718	718
	1953	5½*	July 2, 1973	5,000	985	1,072
	1954	5¼*	February 1, 1974	7,500	3,895	4,089
	1954	4½*	October 1, 1974	5,000	2,672	3,130
	1956	5¼*	June 1, 1975	5,000	2,809	3,017
	1957	5¾	January 15, 1977	12,000	6,676	7,027
	1957	6	September 1, 1977	5,000	3,888	4,150
	1958	5½	February 1, 1978	6,000	3,778	3,797
	1959	6	June 15, 1979	10,000	8,149	8,534
	1960	6¾	February 1, 1980	10,000	8,532	8,839
	1961	5¾	July 2, 1981	10,000	8,733	9,002
	1962	5¾	February 15, 1982	10,000	8,183	8,451
	1965	6½*	December 15, 1983	10,000	8,271	8,467
	1966	7½*	December 15, 1986	10,000	8,753	8,901
	1970	9½*†	October 15, 1992	15,000	14,750	
					90,792	81,533
Niagara Finance Company Limited	1967	7¼**	June 30, 1972	6,000	6,000	6,000
					96,792	87,533

*Sinking fund debentures. All others have purchase fund provisions.

†Holders have the right to prepayment on October 15, 1982.

**Exchangeable at the holder's option in January 1972 for 7¼% sinking fund debentures Series "A" due June 30, 1987.

DETAILS OF SUBORDINATED DEBENTURES *as at December 31, 1970*

SCHEDULE D

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	Outstanding 1970 $000's	Outstanding 1969 $000's
Payable in Canadian funds – Parent company	1966	6¾*	August 15, 1984	15,000	12,365	12,797
	1967	7**	November 1, 1985	10,000	9,231	9,574
					21,596	22,371

*Sinking fund debentures with common share purchase warrants attached (note 12).

**Convertible debentures (note 12).

DETAILS OF CAPITAL STOCK *as at December 31, 1970*

SCHEDULE E

	1970 Shares	1970 Amount $000's	1969 Shares	1969 Amount $000's
Preferred stock				
Authorized and issued –				
4½% cumulative shares of $100 each redeemable at $101	100,000	10,000	100,000	10,000
Purchased for cancellation	43,077	4,308	37,115	3,712
	56,923	5,692	62,885	6,288
5¾% cumulative shares of $25 each redeemable at $26.50 to May 15, 1977; $26.25 to May 15, 1981 and $25.25 thereafter	600,000	15,000	600,000	15,000
Purchased for cancellation	34,023	850	22,273	557
	565,977	14,150	577,727	14,443
		19,842		20,731
Common stock (note 12)				
Authorized without nominal or par value	20,000,000		20,000,000	
Issued and fully paid	12,131,720	33,153	12,060,587	32,322

POLICIES, ACCOUNTING PRINCIPLES AND OTHER DATA

Inter-company borrowing

IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

Borrowing in currencies other than Canadian dollars

The only borrowings in foreign currencies are in U.S. funds. All short-term borrowings are fully hedged. Debt with an original term of more than one year is recorded on the basis of proceeds received or at rates established under forward exchange contracts. Potential exchange loss provisions are set up one year from the relative maturity date. Foreign exchange gains on non-current items are recognized only when realized.

Method of assessing doubtful receivables

The entire portfolio is reviewed for collectibility each month and any 'potential loss' is provided for. After collection possibilities have been exhausted, any balance remaining on the account is written off. In arriving at the allowance for doubtful receivables, the collectibility of all accounts is carefully appraised (1) at branch level, (2) by regional managers*, (3) by division general managers* and (4) if necessary by other executive officers. The shareholders' auditors participate closely in this appraisal during each audit.

*For parent company and by equivalent ranking officers for each subsidiary.

Delinquencies

Delinquent accounts are those on which $5* or more is past due one month or more. Renewed accounts are analyzed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. Partial payments, no matter how recent, will not remove an account from delinquent status. Renewals and extensions of accounts are carefully controlled. The Supplement to this Annual Report contains detailed information.

*For Niagara Finance Company the lesser of $25 or 50% of an instalment.

Branch start-up expenses

Start-up expenses of new branches are charged to current earnings as and when incurred.

Amortization of intangibles

Debt discount and expenses are amortized over the term of the related debt instruments. In case of exchange or prepayment at the holder's option the amortization term is calculated to the date of the first option. Leasehold improvements are amortized in accordance with the regulations of the Income Tax Act (Canada). Improvements to group-owned properties are amortized over five years, or over 10 years if the cost exceeds $10,000.

Depreciation policies

In the case of buildings, depreciation is booked on a straight-line basis at the rate of 2.5% per annum. The maximum rates allowable are claimed for tax purposes. Any resulting tax difference is recorded as deferred income tax. All other physical assets are depreciated at the rates allowed by tax regulations.

Treatment of leasing income

For leased assets, the excess of aggregate rentals over cost is recorded as income over the term of the lease in decreasing amounts pro-rata to the declining balance of the investment not yet recovered. For tax purposes, rentals are treated as income on the accrual basis and maximum capital cost allowance is deducted therefrom. Any resulting tax difference is recorded as deferred income tax. Gains arising from residual values of leased assets are reflected in earnings only when realized.

Treatment of unearned income

The IAC companies normally use the sum-of-the-digits method of determining unearned service charges. The calculation is performed on an account-by-account basis by computer with no allowance for any 'acquisition charge' in the month a contract is acquired. Income is deferred by IAC, the parent company, in such a way as to maintain the original yield on each account to its maturity. Since August 1970, for IAC contracts written in excess of 48 months, deferred income has been taken into earnings on the actuarial yield

basis which is more conservative. Consumer loan transactions of Niagara Finance Company with precomputed charges involve higher initial costs than those of retail sales finance and, in this case, income is deferred equal to the total maximum rebate refundable for each account assuming it were paid out immediately after the close of any financial period. In addition to precomputed service charges, the purchase of regular mortgages at a discount gives rise to unearned income. This is deferred over the lesser of the remaining term of the mortgage or 10 years on the sum-of-the-digits method. In respect of combined mortgages, $35 of the 2% non-refundable fee is taken into income in the month the mortgage is written, to offset the same amount of closing fee paid. The balance is taken into income over the following 59 months (the maximum term of such loans is 5 years) using the sum-of-the-digits method.

Unearned casualty insurance premiums are taken into earned income on a straight-line basis as follows:

a) On policies sold directly to the public, 20% of the premium is immediately credited to income to cover acquisition expense. The remaining 80% is taken into earnings over the term of each policy. However, in accordance with income tax regulations, for tax assessment purposes 100% of the premium is deferred.

b) On policies sold to motor vehicle buyers using the parent company's financing facilities, the entire premium is deferred to be taken into income over the life of the policy.

Income tax allocation

Since 1965, IAC and all its subsidiaries (except Merit Insurance Company) have followed the 'deferred charge / deferred credit' method of accounting for income taxes. Merit began tax allocation accounting in 1968.

Pension funds

IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees with over one year of service, except those of the life assurance company. Based on average lifetime earnings, the plan has been periodically updated to approximate a 'final average earnings plan'. The last updating took place as of December 31, 1967. There is no commitment that the plan will be updated in the future. The company's contribution for 1970 amounted to $762,000 (1969: $729,000). In addition the company contributed $246,000 (1969: $246,000) to various government pension plans.

The Sovereign Life Assurance Company of Canada has its own pension plan based on retirement at age 65 for employees hired prior to 1970, and at age 62 for staff engaged after December 31, 1969.

Managerial staff — average experience

	No.	Average Experience (years)	Average Age
IAC Branch Managers	185	13	38
Regional Managers	22	20	44
Officers	30	25	51
NFC Supervisory Staff	43	16	39

TEN YEAR OPERATING AND STATISTICAL SUMMARY*

	1970		1969		1968		1967	
VOLUME OF BUSINESS ($000's)								
Sales financing — wholesale	738,933		764,918		768,619		626,863	
— retail	428,543		505,063		478,533		380,321	
Consumer loans	168,422		174,752		178,473		164,450	
Residential mortgages	20,181		18,113		12,335		13,157	
Commercial loans and leasing	48,776		42,986		25,376		18,405	
Net casualty insurance premiums written	10,149		10,882		10,303		10,186	
New ordinary life assurance — business written	47,400		46,900		44,000		36,900	
ASSETS & LIABILITIES ($000's)								
Total assets	1,176,661		1,152,286		1,076,446		972,696	
Receivables	1,082,954		1,075,552		1,001,013		893,828	
Total debt	841,506		843,284		795,448		720,252	
Total equity	150,628		143,431		138,305		132,650	
Debt to equity ratio: times	5.59		5.88		5.75		5.43	
OPERATING HIGHLIGHTS ($000's) (per cent of gross income)								
Gross income	143,244		136,327		122,510		109,131	
Cost of borrowed money	60,693	42.4	56,030	41.1	48,958	40.0	41,577	38.
General expenses	40,938	28.6	40,161	29.5	36,761	30.0	34,715	31.
Earnings	16,862	11.8	15,484	11.4	14,936	12.2	14,205	13.
Preferred dividends	1,079	.8	1,118	.8	1,146	.9	1,167	1.
Earnings applicable to common shares	15,783	11.0	14,366	10.5	13,790	11.3	13,038	11.
COMMON STOCK FACTS								
Earnings per share outstanding								
— at year end	$1.30		$1.19		$1.15		$1.09	
— daily average	$1.30		$1.19		$1.15		$1.09	
Per cent return on average equity	12.5		12.1		12.1		12.1	
Dividends paid per share	$ .72½		$ .70		$ .65		$ .61	
Income and other taxes per share	$1.53		$1.45		$1.33		$1.11	
Number of shareholders	13,502		13,904		14,081		13,675	
Number of shares outstanding								
— year end	12,131,720		12,060,587		11,977,828		11,948,622	
— daily average	12,085,813		11,992,218		11,954,178		11,917,132	
— owned in Canada — year end %	94.7		94.1		94.1		93.1	
Book value per share	$10.78		$10.17		$9.78		$9.30	
PERSONNEL & BRANCHES								
People employed	3,279		3,530		3,660		3,606	
Branch offices	574		562		573		561	

*Note: The above summary excludes data for The Sovereign Life Assurance Company of Canada, except for volume, personnel and branches. Figures prior to 1969 reflect the two-for-one subdivisions of common shares in October 1961 and May 1969.

1966	1965	1964	1963	1962	1961
602,313	701,635	560,862	486,679	386,247	323,448
397,036	422,541	402,094	368,320	359,730	355,382
157,019	166,745	155,463	136,244	136,567	113,156
6,111	14,264	13,391	1,233		
14,443	41,208	46,851	37,308	30,197	3,121
9,592	8,968	10,107	10,951	11,521	12,920
34,500	39,800	35,600	29,300	23,800	
943,536	983,198	876,001	749,897	669,877	606,591
887,427	931,533	795,023	679,558	606,203	533,926
697,472	751,948	665,224	555,119	484,506	427,860
126,941	106,728	101,247	100,385	101,115	96,241
5.49	7.05	6.57	5.53	4.79	4.45

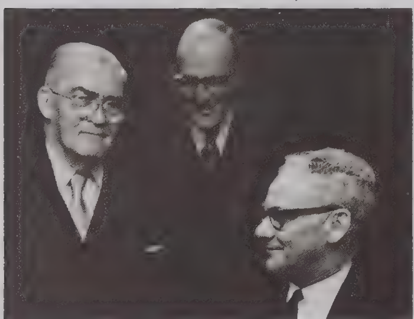
1966		1965		1964		1963		1962		1961	
107,409		100,713		93,198		87,616		83,191		84,906	
43,386	40.4	37,431	37.2	31,000	33.3	26,546	30.3	22,771	27.4	22,188	26.1
32,628	30.4	32,214	32.0	30,466	32.7	28,643	32.7	26,851	32.1	25,442	30.0
13,509	12.6	12,297	12.2	11,715	12.6	11,523	13.2	11,838	14.2	12,583	14.8
856	.8	327	.3	382	.4	580	.7	832	1.0	852	1.0
12,653	11.8	11,970	11.9	11,333	12.2	10,943	12.5	11,006	13.2	11,731	13.8

1966	1965	1964	1963	1962	1961
$1.06½	$1.00½	$ .95½	$ .92½	$ .93	$1.00
$1.06½	$1.01	$ .96	$ .92½	$ .93	$1.01½
12.4	12.4	12.5	12.7	14.1	15.8
$ .60	$ .56¼	$ .55	$ .51¼	$ .50	$ .47½
$1.09	$1.10½	$1.03	$1.05	$1.11	$1.17
13,776	13,220	13,486	11,144	9,760	7,184
11,868,096	11,859,934	11,822,304	11,794,750	11,779,890	11,710,052
11,861,052	11,838,938	11,802,120	11,786,924	11,773,462	11,508,556
92.4	91.1	89.1	83.5	78.2	77.4
$8.84	$8.40	$7.94	$7.53	$7.13	$6.71
3,645	3,585	3,479	3,466	3,451	2,987
551	554	505	453	433	347

Niagara Finance Company Limited, the largest Canadian-owned consumer loan company, enjoyed a modest growth in outstandings during the year. Receivables at year end amounted to $175 million — up 2.6% from the previous year end. The number of customers declined, largely as a result of the company's policy to reduce the volume of low-margin, small balance accounts.

The increase in average outstandings and a higher yielding mix of receivables produced a gross income of $29,758,000 — up 5.8% from 1969.

Cost of borrowed money declined



slowly throughout the year but the average rate at 7.9% exceeded the previous year's 7.6%. General and administrative expenses reflected the favourable effects of the careful control which has been characteristic and the consolidation of some smaller branches into larger units. However, the generally increased cost of doing business and more specifically, the writing down of the book value of receivables in the United Kingdom following the unpegging of the Canadian dollar, caused an over-all increase in these expenditures compared to 1969.

The depressed state of the economy and increased unemployment resulted in somewhat higher delinquency and write-off ratios but earnings for the year increased by 8.0%.

For 1971, the expected improvement

in general economic conditions should result in some growth in receivables which, along with an anticipated modest reduction in the average cost of borrowed funds, should result in some increase in earnings.

SELECTED NIAGARA FINANCE STATISTICS	1970	1969	1968	1967	1966	1961
Earnings ($ thousands)	3,590	3,323	3,541	3,521	3,687	2,485
Receivables ($ millions)	174.7	170.3	164.9	151.5	143.0	92.6
Number of customers	250,052	268,420	277,334	250,131	243,246	166,571
Number of branches	270	293	305	300	293	202

STATEMENT OF EARNINGS
for the year ended December 31, 1970

	1970	1969
	$	$
Gross income (*note 1*)	29,758,138	28,114,364
Expenditure (*note 2*)		
Cost of borrowed money	9,403,772	8,961,412
General and administrative	12,613,500	12,106,002
	22,017,272	21,067,414
	7,740,866	7,046,950
Provision for income taxes		
Current	4,177,000	3,766,697
Deferred	(26,000)	(42,697)
	4,151,000	3,724,000
Earnings	3,589,866	3,322,950

STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1970

	1970	1969
	$	$
Balance – beginning of year	4,399,307	3,876,357
Earnings for the year	3,589,866	3,322,950
	7,989,173	7,199,307
Dividends —		
Class A shares	1,400,000	1,400,000
Common shares	1,400,000	1,400,000
	2,800,000	2,800,000
Balance – end of year	5,189,173	4,399,307

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for the year ended December 31, 1970

(Presented in accordance with the provisions of The Business Corporations Act, 1970 – Ontario)

	1970	1969
	$	$
Source of funds		
Provided from operations	5,510,843	4,498,659
Proceeds from issue of medium-term notes	2,450,000	5,687,875
Increase in unearned income	2,881,395	2,860,374
	10,842,238	13,046,908
Application of funds		
Increase in leasehold improvements and prepaid expenses	250,319	144,732
Increase in unamortized debt discount and expense	1,833,160	573,440
Additions to fixed assets – net	190,451	206,167
Redemption of medium-term notes	5,735,875	8,876,000
Payment of dividends	2,800,000	2,800,000
	10,809,805	12,600,339
Increase in working capital	32,433	446,569
Working capital – beginning of year	98,063,031	97,616,462
Working capital – end of year	98,095,464	98,063,031

BALANCE SHEET *as at December 31, 1970*

	1970	1969
	$	$
ASSETS		
Current assets		
Cash	3,411,459	3,431,083
Receivables —		
Small loans (*note 3*)	80,497,874	87,299,147
Other loans	75,067,400	63,605,790
Sales financing — retail	18,755,679	18,957,045
Other	385,469	471,015
Vehicles and equipment held for sale	7,324	9,570
	174,713,746	170,342,567
Allowance for doubtful receivables	3,126,804	3,095,297
	171,586,942	167,247,270
	174,998,401	170,678,353
Other assets and deferred charges		
Leasehold improvements and prepaid expenses	298,360	192,447
Unamortized debt discount and expense	1,127,265	888,862
Office equipment and automobiles — at cost less accumulated depreciation of $938,660 (1969 — $956,644)	590,472	607,835
	2,016,097	1,689,144
	177,014,498	172,367,497
LIABILITIES		
Current liabilities		
Secured demand bank loans	13,000,000	13,100,000
Secured short-term notes	45,617,395	44,349,677
Demand note payable — parent company	12,200,000	12,000,000
Accounts payable and accrued liabilities	5,633,740	2,938,017
Income taxes	451,802	227,628
	76,902,937	72,615,322
Secured medium-term notes (*note 4*)	3,194,000	6,479,875
Secured long-term notes (*note 5*)	42,500,000	42,500,000
Debentures (*note 6*)	6,000,000	6,000,000
	51,694,000	54,979,875
Unearned income	17,988,084	15,106,689
Deferred income taxes	240,304	266,304
	146,825,325	142,968,190
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized —		
150,000 5¼% non-cumulative participating class A shares of $100 each redeemable at par		
150,000 common shares without nominal or par value		
Issued and fully paid —		
125,000 class A shares	12,500,000	12,500,000
125,000 common shares	12,500,000	12,500,000
	25,000,000	25,000,000
Retained earnings	5,189,173	4,399,307
	30,189,173	29,399,307
	177,014,498	172,367,497

Signed on behalf of the Board

J. S. LAND } Directors
B. F. LONDON }

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1970

1. Gross income

	1970 $	1969 $
Earned service charges and interest on receivables	32,155,416	30,119,501
Less: Provision for doubtful receivables	2,397,278	2,083,555
	29,758,138	28,035,946
Earnings from commercial and other marketable paper		78,418
	29,758,138	28,114,364

2. Expenditure

Expenditure includes the following shown in accordance with The Business Corporations Act, 1970 — Ontario:

	1970 $	1969 $
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	3,819,122	4,082,651
Directors' and senior officers' remuneration	118,723	106,900
Depreciation of office equipment and automobiles	207,814	216,849

3. Small loans

Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is not precomputed.

4. Details of secured medium-term notes

(issued for a term of over one and not more than ten years at various rates of interest)

	Year of maturity	Par value U.S. $	1970 $	1969 $
Payable in Canadian funds —	1970			4,390,000
	1971		1,184,000	597,000
	1972		375,000	122,000
	1973		383,000	10,000
	1974		1,100,000	
	1975		90,000	
	1976		6,000	
	1977		21,000	
	1979		15,000	15,000
	1980		20,000	
			3,194,000	5,134,000
Payable in U.S. funds	1970	1,250,000		1,345,875
			3,194,000	6,479,875

5. Details of secured long-term notes

(issued for a term of more than ten years)

Year of issue	Series	Rate %	Maturity date	1970 $000's	1969 $000's
1964	1	5¾	April 15, 1984	10,000	10,000
1964	2	5¾	May 1, 1985	10,000	10,000
1965	3	5¾	May 1, 1985	10,000	10,000
1966	4	7½	December 1, 1986	5,000	5,000
1968	5	8¼	May 1, 1988	7,500	7,500
				42,500	42,500

6. Details of debentures

Year of issue	Series	Rate %	Maturity date	1970 $000's	1969 $000's
1967	A	7¼	June 30, 1972	6,000	6,000

These are exchangeable at the holders' option in January 1972 for 7¼% sinking fund debentures, series A due June 30, 1987.

AUDITORS' REPORT

To the Shareholders

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1970 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 9, 1971

McDONALD, CURRIE & CO.
Chartered Accountants

During the year Niagara Mortgage & Loan Company Limited, which is incorporated under the laws of Quebec and operates in all provinces except Ontario, purchased from IAC Limited all the issued shares of Niagara Realty Limited, an Ontario company, through which all your company's mortgage business in that province is transacted. The resulting consolidated statements, which appear in this report for the first time, reflect the activities of both companies.

Receivables outstanding grew during 1970 by 20% to $62.6 million

and the number of accounts increased by 12% to 15,281. A significant portion of this growth can be attributed to the larger number of locations in which the service is now available to the public. Niagara Finance Company Limited, which administers your mortgage companies for IAC, now offers both loan and mortgage services to the public through 71 offices.

Higher outstanding receivables and somewhat higher yields resulted in increased gross income. At the same time, the cost of funds increased only moderately and a low overhead was maintained. Thus, earnings for the year increased by 43% over 1969.

On December 15, 1970 Niagara Mortgage & Loan Company Limited arranged its first public borrowing by an issue of secured notes in the amount of $10 million for a term of 20 years with certain prepayment privileges.

It is anticipated that 1971 will bring about additional growth in outstandings and, although a moderate decline in mortgage rates is probable, earnings should exceed those of 1970.

SELECTED NIAGARA MORTGAGE STATISTICS	1970	1969	1968	1967	1966
Earnings ($ thousands)	832	579	519	395	337
Mortgage receivables ($ millions)	62.6	52.0	42.0	36.5	28.3
Number of customers	15,281	13,606	11,934	11,015	9,086
Number of branches	88	37	28	16	17
Average year-end balance (dollars)	4,099	3,825	3,519	3,317	3,112

CONSOLIDATED STATEMENT OF EARNINGS
for the year ended December 31, 1970

NIAGARA MORTGAGE & LOAN COMPANY
LIMITED AND SUBSIDIARY
(*note 1*)

	1970	1969
	$	$
Gross income (*note 2*)	7,219,050	5,868,618
Expenditure		
Cost of borrowed money	4,129,503	3,440,386
General and administrative	1,295,511	1,186,226
Depreciation of office equipment and automobiles	18,046	15,623
	5,443,060	4,642,235
	1,775,990	1,226,383
Provision for income taxes		
Current	824,261	628,701
Deferred	119,539	18,399
	943,800	647,100
Earnings	832,190	579,283

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1970

	1970	1969
	$	$
Balance — beginning of year	988,138	783,855
Earnings for the year	832,190	579,283
	1,820,328	1,363,138
Dividends	576,411	375,000
Balance — end of year	1,243,917	988,138

AUDITORS' REPORT

To the Shareholders

We have examined the consolidated balance sheet of Niagara Mortgage & Loan Company Limited and subsidiary as at December 31, 1970 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles except as described in note 1. These principles have been applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

February 9, 1971

CONSOLIDATED BALANCE SHEET
as at December 31, 1970

NIAGARA MORTGAGE & LOAN COMPANY
LIMITED AND SUBSIDIARY
(note 1)

	1970	1969
	$	$
ASSETS		
Current assets		
Cash	1,161,828	141,793
Cash committed for unclosed loans	627,390	316,116
Receivables —		
Residential mortgages	62,630,600	52,044,279
Real estate held for sale — at estimated realizable value	28,177	7,209
Other	300,537	209,004
	62,959,314	52,260,492
Allowance for doubtful receivables	469,941	390,386
	62,489,373	51,870,106
	64,278,591	52,328,015
Other assets		
Prepaid expenses	7,844	2,521
Unamortized debt expense	118,283	
Office equipment and automobiles — at cost less accumulated depreciation of $56,080 (1969 — $49,155)	48,523	42,482
	174,650	45,003
	64,453,241	52,373,018

	1970	1969
LIABILITIES		
Current liabilities		
Demand note payable — parent company	45,595,000	48,498,000
Accounts payable and accrued liabilities	592,600	579,753
Income taxes	223,671	118,523
	46,411,271	49,196,276
Secured long-term notes *(note 3)*	10,000,000	
Unearned income *(note 4)*	1,486,993	997,083
Deferred income taxes *(note 5)*	311,060	191,521
	58,209,324	50,384,880
SHAREHOLDERS' EQUITY		
Capital stock *(note 6)*		
Authorized — 2,000,000 shares of $5 each		
Issued and fully paid — 1,000,000 shares	5,000,000	1,000,000
Retained earnings	1,243,917	988,138
	6,243,917	1,988,138
	64,453,241	52,373,018

Signed on behalf of the Board

J. S. LAND
B. F. LONDON } Directors

Principles of consolidation

1. By agreement dated September 24, 1970, the company acquired all the outstanding common stock of Niagara Realty Limited for a consideration of $250,000. Immediately prior thereto the retained earnings of that company had been eliminated by the payment of a dividend to its former parent IAC Limited. Thus the purchase price represented the book value of the shares of Niagara Realty Limited at the effective date of the transaction.

In accordance with generally accepted accounting principles a consolidation normally includes the results of operations of a subsidiary only subsequent to the date of purchase. However, since both companies were wholly-owned subsidiaries of IAC Limited from the date of their incorporation, since their operations are similar in nature and since the amount involved in the transaction would not have a material effect on the results of the operations of Niagara Mortgage & Loan Company Limited, it has been considered in this instance that a consolidation of the figures for the entire year with similarly consolidated figures for 1969 would provide a more meaningful presentation.

Gross income

2. This comprises earned income on all loans less provision for doubtful receivables of $100,342 (1969 – $46,005).

Secured long-term notes

3. On December 15, 1970, the company issued $10,000,000 secured notes Series "A" to mature December 15, 1990. Interest is payable at 9¼% to December 15, 1973, at 9½% to December 15, 1975 and thereafter at 9¾%. Holders have the right to prepayment on December 15, 1973, 1975, 1980 or 1985.
IAC Limited has guaranteed the notes as to principal, interest and redemption premiums, if any.

Unearned income

4. This arises from mortgages purchased at a discount and from fees paid in advance on certain mortgages.

Deferred income taxes

5. Deferred income taxes arise from timing differences relating to the treatment of income or expenses associated with the following balance sheet items:

	1970	**1969**
	$	$
Residential mortgages	248,713	191,521
Unamortized debt expense	62,347	
	311,060	191,521

Capital stock

6. During the year the authorized capital stock was increased by the creation of 1,800,000 shares, 800,000 of which were issued for cash.

Source and application of funds

7. Because of the nature of the activities of the company and its subsidiary it is not meaningful to prepare a consolidated statement of source and application of funds.

MERIT INSURANCE COMPANY

Increased premium rates introduced early in 1970 combined with more conservative underwriting standards resulted in an important improvement in the performance of your casualty insurance company.

A planned reduction in motor vehicle business arising from the parent company's retail sales financing resulted in $700,000 less in premiums being written, but helped to lower the over-all loss ratio to 71.28% from 78.99% in the previous year. Policies in force decreased from 101,000 to 88,400, reflecting this curtailed writing.

Earnings for the year amounted to $246,000 against a loss of $273,000 the previous year, a turn around of $519,000 after absorbing some non-recurring expenditure mainly in respect of the move of Merit's administrative offices to Toronto.

Merit's investment portfolio decreased from $12 million to $11.7 million during the year with a yield of 5.94% against 5.58% for 1969.

Merit-Sovereign cooperation took on a new meaning in 1970 with the moving of Merit's administrative functions into the Sovereign building in Toronto. Now that the companies are located together, a common committee of their senior managements is continually studying ways and means to optimize the potential benefits from this close association. For example, the agents of both companies are selling the services of each with increasing success and integration of computer and other internal services is progressing well.

For the future, Merit will concentrate on developing its direct writing business. A continued decrease in the volume of motor vehicle insurance arising from parent company operations is anticipated as is maintenance of improved underwriting results.

SELECTED MERIT INSURANCE COMPANY STATISTICS

(*Thousands of Canadian Dollars*)	1970	1969	1968	1967	1966	1961
Premiums earned	10,301	10,638	10,292	9,865	9,220	14,165
Claims incurred	7,343	8,403	6,839	6,091	5,670	11,659
Expenses	3,361	3,464	3,158	2,919	2,509	3,029
Underwriting gain (loss)	(403)	(1,229)	294	856	1,041	(523)
Investment and other income	699	847	663	565	531	463
Income taxes	50	(109)	182			(155)
Earnings (loss)	246	(273)	775	1,421	1,572	95

STATEMENT OF EARNINGS
for the year ended December 31, 1970

	1970		1969		1970	1969
		$		$	%	%
Premiums						
Net premiums written		10,148,923		10,882,497		
Less: Reinsurance premiums		145,629		103,315		
		10,003,294		10,779,182		
Change in unearned premium reserve		297,617		(141,631)		
Premiums earned		10,300,911		10,637,551	100.00	100.00
Expenses						
Claims incurred	6,610,187		7,776,351			
Staff adjusting expenses	732,360	7,342,547	626,233	8,402,584	71.28	78.99
		2,958,364		2,234,967	28.72	21.01
Commissions	841,173		892,192			
General and administrative	2,254,125		2,297,480			
Taxes and licences	266,166	3,361,464	274,592	3,464,264	32.63	32.57
Underwriting loss		(403,100)		(1,229,297)	(3.91)	(11.56)
Other income						
Income from investments	641,979		634,868			
Gain on sale of investments	57,791	699,770	212,315	847,183		
		296,670		(382,114)		
Income taxes (*note*)						
Current (recoverable)	37,007		(116,600)			
Deferred	50,494	87,501	7,672	(108,928)		
Earnings (loss) before extraordinary item		209,169		(273,186)		
Extraordinary item						
Reduction of income taxes on application of prior year's losses		37,007				
Earnings (loss)		246,176		(273,186)		

Note:
As at December 31, 1970, there remained approximately $420,000 of losses which may be applied against taxable income of future years not later than 1974.

STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1970

	1970	1969
	$	$
Balance – beginning of year	3,867,213	4,140,399
Earnings (loss) for the year	246,176	(273,186)
Balance – end of year	4,113,389	3,867,213

	1970	1969
	$	$
ASSETS		
Cash	608,705	222,464
Reinsurer's deposit in respect of outstanding claims (contra)	183,301	149,446
Accounts receivable	1,385,403	1,294,041
Prepaid expenses	9,528	5,709
Income taxes recoverable	8,553	284,470
Investments — at cost plus accrued income		
(quoted value 1970 — $10,332,514; 1969 — $9,916,647)	11,662,490	12,028,658
Office equipment and automobiles — at cost, less accumulated depreciation of $325,516 (1969 — $311,245)	185,812	196,894
Leasehold improvements — at cost, less amounts written off	248,140	18,865
	14,291,932	14,200,547

	1970	1969
LIABILITIES		
Accounts payable and accrued liabilities	237,058	48,593
Accrued premium taxes	41,766	67,831
Provision for outstanding claims and adjusting expenses	3,075,894	3,179,818
Reinsurer's advance (contra)	183,301	149,446
	3,538,019	3,445,688
Unearned premium reserve	4,511,938	4,809,554
Deferred income taxes	468,286	417,792
	8,518,243	8,673,034
SHAREHOLDERS' EQUITY		
Capital stock —		
Authorized —		
10,000 shares of $100 each		
Issued and fully paid —		
5,830 shares	583,000	583,000
Premium on shares issued	327,300	327,300
Contributed surplus	750,000	750,000
Retained earnings	4,113,389	3,867,213
	5,773,689	5,527,513
	14,291,932	14,200,547

Signed on behalf of the Board

J. S. LAND
D. J. WILSON } Directors

AUDITORS' REPORT

To the Shareholders and Directors

We have examined the balance sheet of Merit Insurance Company as at December 31, 1970 and the statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 9, 1971

McDONALD, CURRIE & CO.
Chartered Accountants

New ordinary insurance and annuities issued in 1970 totalled $47.4 million which was the highest level of sales in the company's history. The annual premium income value of this new business is $661,000 as compared to $630,000 in 1969, an increase of 4.9%.

Revenue consisting of premiums and investment earnings such as interest, dividends and rents amounted to $11,359,949 in 1970 (1969—$12,009,110). This reduction arose from certain group insurance premiums being received when earned, instead of, as formerly, in a lump sum at the beginning of each contract term. Investment earnings increased due to the slightly larger portfolio and generally higher yields. Net profit from the disposal of securities was $84,501, compared with $299,215 in 1969.

Combining a number of administrative functions with those of Merit Insurance Company resulted in substantial structural changes in head office accommodation, in the installation of a larger computer and in other non-recurring expenses which will yield their full benefit in the years ahead. Expenses during 1970 reflected these changes as well as the cost of increased sales and the continuing effects of inflation.

Net yield on all investments after related expenses increased to 6.37% from 6.20% in 1969 and was the highest rate ever recorded by the company.

After making all necessary provisions, the total of capital, surplus and reserve accounts was $8,971,564, equal to 14.2% of assets.

The present value, discounted at 5%, of future earnings after taxes from business now in force, earnings which would continue even if Sovereign were to cease all selling activity, was calculated at December 31, 1970 to be $2,959,886, an increase during the year of $72,515.

Copies of the complete Sovereign report are available from the Secretary of Sovereign or of IAC.

SELECTED SOVEREIGN LIFE STATISTICS

(*Millions of Canadian Dollars*)	1970	1969	1968	1967	1966	1962*
Insurance in force:						
Ordinary	323.3	311.0	293.5	275.5	266.9	216.2
Group	420.0	449.6	386.8	334.8	353.6	2.6
Total	743.3	760.6	680.3	610.3	620.5	218.8
New business written:						
Ordinary	47.4	46.9	44.0	36.9	34.5	23.8
Group (Net change)	(29.6)	62.8	52.0	(18.8)	25.2	0.7
Policy reserves	45.4	45.6	44.9	43.2	42.4	37.2
Total assets	63.2	62.5	60.4	57.8	55.6	46.1
Net interest earned: Per cent	6.37%	6.20%	6.05%	6.07%	5.95%	5.21%

*Year of acquisition by IAC

STATEMENT OF REVENUE

for the year ended December 31, 1970

	1970	1969
	$	$
Revenue		
Premiums and annuity considerations	7,494,428	8,316,441
Interest, dividends and rents, less related expenses of $267,189 (1969 — $270,018)	3,865,521	3,692,669
	11,359,949	12,009,110
Policyholder distribution and expenditures		
Amounts paid to or set aside for policyholders and beneficiaries —		
Death and ordinary disability claims	2,629,603	2,669,231
Group disability claims	844,906	438,158
Matured endowments	714,214	666,884
Annuity benefits	214,791	210,789
Surrender values	2,390,345	2,810,186
(Decrease) increase in reserves for insurance and annuity contracts	(183,930)	674,784
Interest credited to funds on deposit	168,401	155,365
	6,778,330	7,625,397
Dividends to participating policyholders (including increase in provision)	660,522	660,189
Policyholders' investment taxes	176,000	80,000
Increase in provision for experience rating refunds	302,472	134,226
	7,917,324	8,499,812
Operating expenses		
General	2,927,374	2,637,091
Provincial premium taxes	129,584	148,418
	3,056,958	2,785,509
	10,974,282	11,285,321
Operating revenue before income taxes	385,667	723,789
Provision for income taxes	128,000	420,000
Operating revenue	257,667	303,789
Investment transactions		
Net gain on disposal of securities	84,501	299,215
Excess of revenue for the year	342,168	603,004
Allocated as follows:		
Increase in unassigned surplus (*note*)	342,168	353,004
To contingency reserve		250,000
	342,168	603,004

Note:

Shareholders' portion of the increase in unassigned surplus amounts to $248,243 (1969 — $235,580).

AUDITORS' REPORT

To the Policyholders, Shareholders and Directors

We have examined the balance sheet of The Sovereign Life Assurance Company of Canada as at December 31, 1970 and the statement of revenue for the year then ended. Our examination included verification of the cash and investments in bonds and stocks by certificates from the depositories, a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. The reserves and other liabilities under the various assurance and annuity contracts are stated at amounts certified by the company's actuary.

In our opinion, based upon our examination and upon the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

January 29, 1971

BALANCE SHEET
as at December 31, 1970

	1970	1969
	$	$
ASSETS		
Bonds and debentures, at amortized cost or less (*note 1*)	22,216,601	22,776,744
Common and preferred stocks, at cost or less (*note 1*)	3,725,685	3,622,703
First mortgages and agreements for sale on real estate	30,926,933	30,545,456
Loans on policies, secured by cash values	3,644,813	3,286,455
Real estate —		
Purchased for income — at cost, less amounts written off — $78,283 (1969 — $62,679)	1,321,170	1,336,774
Cash	353,830	182,205
Premiums in course of collection	219,433	177,221
Investment income due and accrued	636,154	599,952
Other assets	111,327	15,550
	63,155,946	62,543,060

	1970	1969
LIABILITIES		
Reserves for insurance and annuity contracts	45,429,534	45,613,464
Policyholders' funds on deposit	3,227,662	2,936,281
Policy claims in course of settlement and provision for unreported claims of $327,320 (1969 — $327,320)	793,595	745,950
Mortgagors' tax prepayments	715,042	693,185
Premium and other taxes accrued (*note 2*)	165,781	394,022
Other liabilities and accruals	175,007	272,169
Provision for experience rating refunds	525,747	223,275
Provision for dividends to policyholders	1,799,518	1,789,999
Staff and agents' pension and insurance funds	1,352,496	1,245,319
	54,184,382	53,913,664
CAPITAL AND SURPLUS		
Capital stock —		
8,406 shares of $100 each of which 24 shares are fully paid and 8,382 shares are $25 paid	211,950	211,950
Investment reserve	1,000,000	1,000,000
Contingency reserve	650,000	650,000
Shareholders' surplus	95,000	95,000
Unassigned surplus	7,014,614	6,672,446
	8,971,564	8,629,396
	63,155,946	62,543,060

Notes:

1. Valuation of bonds and debentures and preferred and common stocks —

	1970	1969
Value stated in the balance sheet	25,942,286	26,399,447
Estimated market value	21,779,938	22,786,623
Maximum value at which these securities may be carried as prescribed by the insurance laws of Canada	24,513,797	25,460,501

2. The 1969 tax returns filed by the company reflected taxes payable which were $128,000 less than that actually provided for in the accounts for 1969. This amount is included in premium and other taxes accrued.

Signed on behalf of the Board

J. S. LAND
W. R. LIVINGSTON } Directors

BANKS WITH WHICH LINES OF CREDIT ARE ESTABLISHED

Canada

The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank Canadian National
The Provincial Bank of Canada
Bank of Nova Scotia
The Mercantile Bank of Canada

U.S.A.

Morgan Guaranty Trust Company of New York
Continental Illinois National Bank and Trust Company of Chicago
The Chase Manhattan Bank NA
The First National Bank of Chicago
Bankers Trust Company
First National City Bank
Chemical Bank New York Trust Company
Crocker-Citizens National Bank
Irving Trust Company
Manufacturers Hanover Trust Company
Marine Midland Trust Company of Western New York
National Bank of Detroit
National Bank of North America
Security Pacific National Bank
Wells Fargo Bank NA
French American Banking Corporation
Schroder Trust Company
The Northern Trust Company
The Bank of New York

TRANSFER AGENTS

Common Stock

Montreal Trust Company, *Montreal, Toronto, Regina, Calgary and Vancouver*
The Bank of New York, *New York*

Preferred Stock

The Royal Trust Company, *Montreal, Toronto, Regina, Calgary and Vancouver*

REGISTRARS

Common Stock

Canada Permanent Trust Company, *Montreal and Toronto*
The Royal Trust Company, *Regina, Calgary and Vancouver*
The Bank of New York, *New York*

Preferred Stock *$100 par value* Montreal Trust Company, *Montreal, Toronto, Regina, Calgary and Vancouver*
$ 25 par value Guaranty Trust Company of Canada, *Montreal, Toronto, Regina, Calgary and Vancouver*

STOCK LISTINGS

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange* **Common Stock only*

AUDITORS

McDonald, Currie & Co., Montreal, Chartered Accountants

FINANCIAL AND INSURANCE SERVICES

IAC LIMITED
Sales Financing — Purchase Credit Plans — Equipment Financing
Fleet Financing — Leasing — Portfolio Discounting
Capital Assets Leasing

NIAGARA FINANCE COMPANY LIMITED
Consumer Loans and Financing

MERIT INSURANCE COMPANY
Automobile Insurance — Comprehensive Home Insurance
Personal Liability Insurance

NIAGARA MORTGAGE & LOAN COMPANY LIMITED
NIAGARA REALTY LIMITED
First and Second Mortgage Loans — Mortgage Discounting
Combined Mortgages

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA
Life Insurance — Estate Planning — Key Man Insurance
Partnership Insurance